June 11, 1998
JW 98-02-20



process, we have been in negotiations with the Department of Justice about performance standards. And, I believe, we have agreed to interconnection agreements, and with the discussions with the Department of Justice that we have agreed to a set of 65 performance standards that my understanding, have -- the Department of Justice has agreed has met the intent of the Telecom Act.

Q. (Vallee) Is the company subject to anything like SNET's Q factor here?

A. (Kahan) Productivity offset 1?

A. (Laundy) No, service quality offset.

A. (Kahan) Every one of the states has service quality measurements. I don't know if any of them tie back to the productivity factor, but, I believe, in certain of our states there are financial penalties if, certain objectives are not met.

As a matter of fact, in California before we made the acquisition they were paying pretty significant penalties, as a matter of fact, and we have improved in all those. As far as I am aware of, we have not paid any penalties.

Q. (Vallee) You are aware that SNET has?

A. (Kahan) My understanding is that they have missed one of their service quality measurements and has resulted in payment of financial penalties.

Q. (Vallee) In following along with that, SBC, you have been outspoken about the fact that you want to expand the line penetration. That seems to be a forte of the company.

Ms. MacClintock addressed the problems that would perhaps be encountered here in her supplemental testimony at page 17 where she said the telco has facilities shortages in its outside plant. I know you have not done postmerger --

A. (Kahan) Let me give an example, similar people, different result. In California in the San Francisco and Silicon Valley area, PacTel had diverted significant funds to build their HFC network. And their thought process was that they were moving traffic to that new network. They had cutback the investment in the copper network.

The result was when we got out there if you wanted a new line in San Francisco you had to wait two or three weeks. That is unheard of in our industry. A repair line took two or three weeks.

We increased the investment. When service problems result, often they are the result of either central office or outside plan lack of infrastructure. Sometimes, it is procedures and training and things like that that you can take action on. But in the case of California, what we did is two things. We increased the investment and we hired, I think, 250 -- 1,000 outside plant and technicians and repair people to handle the load.

So there is an example of the action. Is that the right action here? I don't know. We have to study it. But at its best it keeps you from selling second lines; at its worst you can even handle first lines. That is unacceptable.

June 8, 1998
DN 98-02-20



We believe based on our track record, our commitment to CUTW, we fully intend to grow employment in Connecticut.

There are difficulties with predicting how and when, when you don't have any big lines of business like cellular, even long distance. There is already that service offering in Connecticut.

And so we do believe realistically there is going to be ups and downs in the level of management employees but over the longer haul, we will definitely grow employment in Connecticut.

A. (Kahan) Can I give some facts on that? Let me give an example of our growth orientation.

Our penetration rate of our cellular business is 12.2 percent nationwide. We are the leader in the industry, highest penetration of customers to the area served.

Southern New England is about 8 percent. If we can grow Southern New England penetration from 8 to 12 percent, that is going to add a lot of jobs.

If we can sell more second lines,

there are significantly fewer second lines in Connecticut than the demographics would lead you to believe there should be, there are fewer vertical services sold than the demographics of the community would lead you to believe.

To the extent we can be more successful, rolling out new products, selling the products, what that means is more service jobs, more technicians, more switch, more construction and investment that is the tie-in to our growth philosophy.

If we invest on not reducing expenses, per se, we are not a company that tries to take expenses out.

If you can grow revenue, you can grow the business. If you can grow the business, you need more employees. That is what we want to do.

Q. (Augeri) You mentioned that commitment you made with CUTW, was there something similar to the Pacific-Telesis merger?

A. (Carr) No, there was not a

STATE OF CONNECTICUT
DEPARTMENT OF PUBLIC UTILITY CONTROL

| | |
|---|---|
| JOINT APPLICATION OF SBC COMMUNICATIONS INC. AND SOUTHERN NEW ENGLAND TELECOMMUNICATIONS CORPORATION FOR APPROVAL OF A CHANGE OF CONTROL | : DOCKET NO. 98-02-20<br>:<br>:<br>:<br>: MARCH 10, 1998 |

PREFILED TESTIMONY OF JAMES S. KAHAN
ON BEHALF OF
SBC COMMUNICATIONS INC.

an Ericsson AXE switch, a DMS 100/200, DMS 250 switch manufactured by Northern Telecom, a wireless switch, two Intelligent Peripheral platforms, Six Integrated Service Control Point ("ISCP") platforms covering advanced intelligent network, local number portability and home location register applications, three signal transfer point platforms, and six voice mail platforms (including Converse, Access and Access NP Digital Sound, OcTele, Sierra and Unix' platforms). Finally, these systems are interconnected to test environments that support the development of Operation Support Systems to validate proper handling of the provisioning, activation and maintenance functions of customer service. This is an extremely complex, highly technical, sophisticated laboratory which can be made available to SNET to facilitate the testing and provisioning of new services in Connecticut.

Q. Does SBC have other assets which can be brought to bear in Connecticut?

A. Yes, we do. SBC has an outstanding marketing staff which has devoted years of effort and significant financial resources to the development of effective, customer focused marketing programs. As SBC always does, our Marketing

Department begins its analysis by focusing on the customer--what products and services do our customers want, what packages and products and services are most attractive to our customers, and what are customers willing to pay for those products and services? Based on this analysis, SBC's marketing staff has identified product packages which are valued by our customers and has developed marketing programs which facilitate customers becoming aware of and purchasing those desirable offerings.

Q. How do you measure SBC's marketing success?

A. You can measure SBC's success by the penetration levels of certain products and services offered by SBC. Second-line penetration is an excellent example. There is no question that, in today's highly technical environment, many Connecticut customers would benefit greatly from the presence of second lines at their residences. With the increased popularity of the Internet, and the high penetration of home PCs and home fax machines, the availability of second lines is of great value. This is particularly true in a State such as Connecticut where there is such a high concentration of highly educated, high income individuals. SNET Telco's second line penetration by comparison is currently less than 8% of the households served. The SWBT and Pacific Bell second line penetration is set out in the following chart:

| State | Second Line Penetration |
|---|---|
| California | 22.9 |
| Texas | 19.83 |
| Oklahoma | 15.42 |
| Missouri | 12.73 |
| Kansas | 12.63 |
| Arkansas | 11.25 |

Similar comparisons apply to features. SNET Telco's residence penetration level in Caller ID is 5.4%, compared to SBC's Caller ID penetration of 47% in SBC's traditional five state local service territory. SNET's penetration for residence voice mail is 2.7%, compared to SBC's voice mail penetration level of 13.6% in the State of Texas and 12.24% in the traditional five state territory. The combination of SNET's employees and network with SBC's marketing expertise and resources can greatly increase the Connecticut consumer's awareness of and utilization of these valuable telecommunications products.

SNET has focused its relatively limited resources on marketing long distance both on an interstate and intrastate level. They have done an outstanding job in this highly competitive area and SBC expects to gain valuable knowledge and experience from SNET about the long distance business. With SBC's expertise in marketing and financial resources, SNET can continue its long distance efforts while increasing its activities in areas such as marketing caller ID and second lines.

Q. Do you expect that SNET can benefit from SBC's wireless expertise?

A. SBC is the second largest provider of wireless services in this country. We are fully committed to providing the highest quality wireless networks available. We have extensive experience with virtually every wireless technology in the marketplace.

For example, we use a number of different switch vendors and network platforms in our wireless markets. In Chicago, we have what is quite possibly the largest Ericsson based cellular network in the country, if not the world. We are

Southern New England
Telecommunications Corporation
227 Church Street
New Haven, Connecticut 06510

# 1997 Annual Report & 1998 Proxy Statement

**Wireline**
**Wireless**
**Information and**
**Entertainment**

## Southern New England Telecommunications Corporation

# Financial Highlights

| Dollars in Millions, Except as Noted | **1997** | 1996 | 1995 |
|---|---|---|---|
| **Operating Results** | | | |
| Revenues and Sales | **$2,022.3** | $1,941.9 | $1,816.4 |
| Annual Growth | **4.1%** | 6.9% | 5.7% |
| Costs and Expenses(1) | **$1,245.7** | $1,203.6 | $1,121.6 |
| Net Income (Loss)(2) | **$ 193.8** | $ 192.8 | $ (518.3) |
| **Per Share Information (dollars)** | | | |
| Basic Earnings Per Share | | | |
| Income Before Extraordinary Charge | **$ 2.99** | $ 2.95 | $ 2.60 |
| Net Income (Loss)(2) | **$ 2.93** | $ 2.95 | $ (7.99) |
| Diluted Earnings Per Share | | | |
| Income Before Extraordinary Charge | **$ 2.98** | $ 2.94 | $ 2.60 |
| Net Income (Loss)(2) | **$ 2.92** | $ 2.94 | $ (7.99) |
| Dividends Declared | **$ 1.76** | $ 1.76 | $ 1.76 |
| Market Price (year-end) | **$ 50.313** | $ 38.875 | $ 39.750 |
| **At Year-End** | | | |
| Total Assets | **$2,770.9** | $2,671.0 | $2,724.2 |
| Debt Ratio | **69.2%** | 74.9% | 80.0% |
| Total Employees | **9,743** | 9,441 | 9,070 |
| **Statistical Data** | | | |
| Network Access Lines in Service (thousands)(3) | **2,286** | 2,163 | 2,073 |
| Annual Growth(3) | **5.7%** | 4.3% | 3.2% |
| Second Residential Network Access Lines in Service (thousands) | **127** | 97 | 75 |
| Annual Growth | **30.9%** | 29.3% | 25.0% |
| Network Interstate Access Minutes of Use (millions) | **8,291** | 7,906 | 7,298 |
| Annual Growth | **4.9%** | 8.3% | 5.5% |
| Interstate and International Toll Access Line Subscribers (thousands) | **941** | 758 | 266 |
| Annual Growth | **24.1%** | 185.0% | 127.4% |
| Cellular Subscribers (thousands)(4) | **457** | 392 | 323 |
| Annual Growth(4) | **16.6%** | 21.4% | 94.6% |
| **Other Data** | | | |
| Operating Cash Flow(5) | **$ 776.6** | $ 738.3 | $ 694.8 |
| Telephone Company Wireline Cost Per Access Line (dollars)(6) | **$ 312** | $ 332 | $ 320 |
| Net Cash Provided by Operating Activities | **$ 616.0** | $ 477.4 | $ 442.6 |
| Cash Expended for Capital Additions | **$ 472.4** | $ 373.8 | $ 357.4 |
| Cash Dividends Paid | **$ 102.4** | $ 100.2 | $ 98.0 |

(1) Excludes depreciation and amortization.

(2) 1997 includes a $6.4 before-tax extraordinary charge for the early extinguishment of debt that reduced net income by $3.7 and both basic and diluted earnings per share by $.06. 1995 includes a $1,202.6 before-tax extraordinary charge for the discontinuance of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation," that reduced net income by $687.1 and basic and diluted earnings per share by $10.59.

(3) Excluding the purchase of Woodbury Telephone Company ("Woodbury"), network access lines in service would have increased 4.7% to 2,265,000 in 1997.

(4) Excluding the subscribers from the acquired cellular properties, cellular subscribers would have increased 51.1% to 251,000 subscribers in 1995.

(5) Represents operating income before depreciation and amortization. Operating cash flow is not a generally accepted accounting principle measurement. Management provides this measurement for informational purposes only.

(6) Excludes depreciation and amortization, property and other taxes, publishing and bad debt expenses. Also, excludes costs and access lines resulting from the purchase of Woodbury.

$10.59 per share, for both basic and diluted earnings per share, related to the discontinuance of Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation." This non-cash extraordinary charge consisted of the elimination of net regulatory assets and the recognition of depreciation reserve deficiencies. As a result of this charge, net loss for 1995 was $518.3, or $7.99 per share for both basic and diluted earnings per share.

## Revenues and Sales

Revenues and sales increased $80.4, or 4.1%, in 1997 and $125.5, or 6.9%, in 1996. The components of revenues and sales by product group are summarized as follows:

| For the Years Ended December 31, | 1997 | 1996 | 1995 |
|---|---|---|---|
| Wireline: | | | |
| Local service | $ 701.9 | $ 673.7 | $ 641.6 |
| Network access | 429.2 | 388.1 | 369.4 |
| Intrastate toll | 213.0 | 251.2 | 266.4 |
| Interstate and international toll | 142.1 | 101.2 | 42.1 |
| Premium services and equipment sales | 126.7 | 107.6 | 104.9 |
| Other revenues | 52.8 | 50.1 | 57.0 |
| Total Wireline | 1,665.7 | 1,571.9 | 1,481.4 |
| Wireless: | | | |
| Cellular service | 213.7 | 203.0 | 153.1 |
| Cellular equipment sales | 7.2 | 10.1 | 7.8 |
| Paging | 6.5 | 6.1 | 12.2 |
| Total Wireless | 227.4 | 219.2 | 173.1 |
| Information and Entertainment | 189.4 | 184.2 | 180.9 |
| Eliminations and Other Sales | (60.2) | (33.4) | (19.0) |
| Total Revenues and Sales | $2,022.3 | $1,941.9 | $1,816.4 |

Revenues increased due primarily to growth in interstate and international toll, local service and network access, offset partially by declines in intrastate toll due primarily to competition.

**Wireline** Local service revenues, derived from providing local exchange, advanced calling features and local private line services, increased $28.2, or 4.2%, in 1997 and $32.1, or 5.0%, in 1996. Growth in 1997 and 1996 was primarily attributable to increases of 5.7% and 4.3%, respectively, in the number of access lines in service. Excluding the purchase of Woodbury Telephone Company ("Woodbury") [see Note 2], access lines would have increased 4.7%. The increases in access lines for both years included significant growth in Centrex business lines and second residential lines. Additionally, in 1997, local service revenues increased due to compensation received as part of the pay telephone reclassification and compensation provisions of the Federal Telecommunications Act of 1996 ("Act") [see Regulatory Matters—Federal]. Local service revenues also increased due to growth in vertical services. The increase in local service revenues for 1997 was tempered by a decrease in revenues recognized from wireless carriers (due to a decrease in the generic wireless tariff in accordance with the Act) and customer migration from flat-rate services to lower priced Centrex services. Management expects increased competition to negatively impact local service revenues as other telecommunications providers offer local service and as the Connecticut Department of Public Utility Control ("DPUC")-mandated balloting process commences, scheduled for early 1999 [see Competition].

Network access revenues represent charges assessed on interexchange carriers and end users for access to the local exchange network. 1997 network access revenues increased $41.1, or 10.6%, compared with an increase of $18.7, or 5.1%, in 1996. Interstate access revenues increased $24.6, or 6.8%, in 1997 due primarily to the effects of the reversal of proposed 1996 tariff changes and interconnection discount plans, and to growth in interstate minutes of use of 4.9% and an increase in access lines in service. Offsetting the impact of these items was a decrease in annual tariff rates in accordance with the Corporation's July 1997 Federal Communications Commission ("FCC") filing under price cap regulation [see Regulatory Matters—Federal]. Interstate access revenues in 1996 increased $10.2, or 2.9%, due primarily to an 8.3% growth in interstate minutes of use and an increase in access lines in service. Partially offsetting the impact of the increase in minutes of use was a decrease in rates due to proposed tariff changes and interconnection discount plans and reduced access tariff rates. In 1997 and 1996, intrastate access revenues increased $15.4 and $8.5, respectively, due primarily to an increase in intrastate minutes of use by competitive providers of intrastate long-distance service. Management expects continued increases in minutes of use as more competitors enter Connecticut's fully competitive marketplace.

In 1997, intrastate toll revenues, which include primarily revenues from toll and WATS "800" services, decreased $38.2, or 15.2%, compared with a decrease of $15.2, or 5.7%, in 1996. The decrease in 1997 was due primarily to a 12.2% reduction in toll message volume, as well as reduced intrastate toll rates. Lower toll volume was due primarily to the highly competitive toll market as a result of a full year of intrastate equal access. The decrease in intrastate toll revenues in 1996 was due primarily to a decline in intrastate toll rates attributable to customer migration to several discount calling plans. Also contributing to the decrease was a reduction in toll message volume of approximately 1%. Competition and the offering of competitive discount calling plans will continue to place downward pressure on intrastate toll revenues.

Interstate and international toll revenues increased $40.9 in 1997 and $59.1 in 1996. In both 1997 and 1996, the increase was a result of significant growth in the customer base. Long-distance access lines in service increased to 941,000 at the end of 1997 from 758,000 at the end of 1996. The growth was primarily a result of customer migration to the SNET All Distance® product

# News Release

227 Church Street
New Haven, Connecticut 06510

July 27, 1998

For more information contact: Jim Magrone
(203) 771-4662

**SNET Second Quarter Net Income $53.1 Million, Up 6.2%**

New Haven, Conn., Southern New England Telecommunications Corporation (SNET) -- (NYSE: SNG) -- announced today that second quarter net income for 1998 was $53.1 million, a 6.2% increase when compared with $50.0 million in the second quarter of 1997. Diluted earnings per share were $.77 for the quarter versus $.76 last year when there were 2.6 million fewer diluted shares outstanding.

Daniel J. Miglio, SNET's chairman and chief executive officer, said, "We are very pleased with our performance. Even with intense competition in our markets, revenues grew 7.4%, fueled by continuing healthy growth in all of our product lines. And net income growth reflects the incremental impacts of regulatory mandates.

"In a J.D. Power study, released just last week, SNET for the second consecutive year has been rated the number one long-distance company in America among mainstream users. We are immensely pleased with the high scores our customers give us for credibility, cost, value and customer service.

"The approval process for our pending merger with SBC Communications is moving along according to plan and we still expect the merger to close during 1998," he added.

**Revenues**

Consolidated revenues and sales for the quarter were $538.6 million, up 7.4%.

Wireline revenues grew to $434.4 million, an increase of 6.5%. Local service revenues were up 3.6%, the result of continued strong growth in business and second residential lines. Network-access revenues increased 5.8% primarily a result of growth in minutes of use and data services. In-state toll revenues decreased 4.4%, reflecting increased competition. Revenues from the interstate/international long-distance business grew 18.0%, due primarily to an increase in customers.

Wireless revenues were $66.1 million, up 12.8%, reflecting 14.2% growth in customers.

Information and Entertainment revenues grew by 24.5% to $58.5 million, due primarily to growth in Publishing and our cable TV business as well as a doubling of the number of Internet customers.

**Expenses**

Consolidated operating expenses for the second quarter increased to $322.4 million, up 9.2%.

Wireline operating expenses rose $21.3 million, or 8.7%, reflecting costs associated with expanding our interstate and international customer base and increased Local Number Portability costs.

Wireless operating expenses increased $2.5 million, or 5.9%, to support customer growth and for continuing the rollout of digital service.

Information and Entertainment operating expenses rose by $16.1 million due primarily to costs associated with the restructure of Publishing and growth in cable TV and Internet services.

Depreciation and amortization expenses were up $1.4 million, or 1.5%, due to higher depreciable plant levels. Interest expense was essentially flat. Income taxes increased $1.9 million, or 6.3%, the result of higher pre-tax income.

**Outstanding Shares**

The weighted average number of outstanding shares for the quarter for both basic and diluted EPS increased by 3.2% and 4.0% respectively, primarily the result of the exercise of employee stock options.

SNET is a leading information, communication and entertainment company in Connecticut, offering a full range of wireline products including SNET All Distance® service as well as wireless voice and data services, Internet access and cable TV. The company is building I-SNET®, a statewide broadband information superhighway. In the latest J.D. Power national customer satisfaction survey, SNET was ranked the number one long-distance company in America among mainstream users for the second straight year.

XXX

SNET

Preliminary Summary of Consolidated Results
For the Three Months Ended June 30, 1998
(Dollars in Millions Except Per Share Amounts)

| | (Unaudited) For the 3 Months Ended June 30, | | Percent Change |
|---|---|---|---|
| | 1998 | 1997 | |
| INCOME STATEMENT | | | |
| Revenues and Sales | $538.6 | $501.6 | 7.4% |
| Costs and Expenses: | | | |
| Operating and maintenance | 322.4 | 295.3 | 9.2% |
| Depreciation and amortization | 95.8 | 94.4 | 1.5% |
| Taxes other than income | 13.5 | 13.4 | .7% |
| Total Costs and Expenses | 431.7 | 403.1 | 7.1% |
| Operating Income | 106.9 | 98.5 | 8.5% |
| Interest expense | 22.3 | 22.4 | (.4%) |
| Other income, net | .4 | 3.9 | |
| Income Before Income Taxes | 85.0 | 80.0 | 6.3% |
| Income taxes | 31.9 | 30.0 | 6.3% |
| Net Income | $53.1 | $50.0 | 6.2% |
| Weighted Average Basic Common Shares Outstanding (thousands)* | 68,025 | 65,912 | 3.2% |
| Weighted Average Diluted Common Shares Outstanding (thousands)* | 68,636 | 66,016 | 4.0% |

* Effective December 31, 1997, SNET adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." Under SFAS No. 128, basic earnings per common share is computed by dividing income by the weighted average number of common shares outstanding during the period. In order to compute diluted earnings per share, the weighted average number of common shares is increased by the effect of all potential common shares outstanding during the period.
As required by SFAS No.128, all periods presented have been restated to conform to the provisions of the new standard.

**SNET**
**Preliminary Summary of Consolidated Results**
**For the Three Months Ended June 30, 1998**
**(Dollars in Millions Except Per Share Amounts)**

| | (Unaudited) For the 3 Months Ended June 30, 1998 | 1997 | Percent Change |
|---|---|---|---|
| BASIC EARNINGS PER COMMON SHARE* | | | |
| Net Income** | $0.78 | $0.76 | 2.6% |
| DILUTED EARNINGS PER COMMON SHARE* | | | |
| Net Income** | $0.77 | $0.76 | 1.3% |
| STATISTICS | | | |
| Access Lines in Service (thousands) | 2,335 | 2,205 | 5.9% |
| Interstate Minutes of Use (millions) | 2,159 | 2,053 | 5.2% |

* Effective December 31, 1997, SNET adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." Under SFAS No. 128, basic earnings per common share is computed by dividing income by the weighted average number of common shares outstanding during the period. In order to compute diluted earnings per share, the weighted average number of common shares is increased by the effect of all potential common shares outstanding during the period. As required by SFAS No.128, all periods presented have been restated to conform to the provisions of the new standard.

** 1997 amount does not include the accounting change. If the accounting change had been applied to 1997, Basic and Diluted Earnings Per Share Before Extraordinary Charge and Accounting Change for the period would have been $.77. The Basic and Diluted Earnings Per Share percent change for the period would have been 1.3% and 0.0%, respectively.

SNET

Preliminary Summary of Consolidated Results
For the Six Months Ended June 30, 1998
(Dollars in Millions Except Per Share Amounts)

| | (Unaudited) For the 6 Months Ended June 30, 1998 | 1997 | Percent Change |
|---|---|---|---|
| INCOME STATEMENT | | | |
| Revenues and Sales | $1,065.7 | $984.3 | 8.3% |
| Costs and Expenses: | | | |
| Operating and maintenance | 627.8 | 576.9 | 8.8% |
| Depreciation and amortization | 190.8 | 186.0 | 2.6% |
| Taxes other than income | 26.4 | 26.5 | (.4%) |
| Total Costs and Expenses | 845.0 | 789.4 | 7.0% |
| Operating Income | 220.7 | 194.9 | 13.2% |
| Interest expense | 44.9 | 45.1 | (.4%) |
| Other income, net | (.6) | 4.0 | |
| Income Before Income Taxes | 175.2 | 153.8 | 13.9% |
| Income taxes | 65.7 | 57.7 | 13.9% |
| Income Before Extraordinary Charge and Accounting Change | 109.5 | 96.1 | 13.9% |
| Extraordinary Charge, Net of Tax | - | (3.7) | |
| Accounting Change, Net of Tax | 15.5 | - | |
| Net Income | $125.0 | $92.4 | 35.3% |
| Weighted Average Basic Common Shares Outstanding (thousands)* | 67,627 | 65,848 | 2.7% |
| Weighted Average Diluted Common Shares Outstanding (thousands)* | 68,317 | 65,930 | 3.6% |

* Effective December 31, 1997, SNET adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." Under SFAS No. 128, basic earnings per common share is computed by dividing income by the weighted average number of common shares outstanding during the period. In order to compute diluted earnings per share, the weighted average number of common shares is increased by the effect of all potential common shares outstanding during the period. As required by SFAS No.128, all periods presented have been restated to conform to the provisions of the new standard.

**SNET**
**Preliminary Summary of Consolidated Results**
**For the Six Months Ended June 30, 1998**
**(Dollars in Millions Except Per Share Amounts)**

| | (Unaudited) For the 6 Months Ended June 30, 1998 | 1997 | Percent Change |
|---|---|---|---|
| BASIC EARNINGS PER COMMON SHARE* | | | |
| Income Before Extraordinary Charge and Accounting Change** | $1.62 | $1.46 | 11.0% |
| Extraordinary Charge, Net of Tax | - | (0.06) | |
| Accounting Change, Net of Tax | .23 | - | |
| Net Income | $1.85 | $1.40 | 32.1% |
| DILUTED EARNINGS PER COMMON SHARE* | | | |
| Income Before Extraordinary Charge and Accounting Change** | $1.60 | $1.46 | 9.6% |
| Extraordinary Charge, Net of Tax | - | (0.06) | |
| Accounting Change, Net of Tax | .23 | - | |
| Net Income | $1.83 | $1.40 | 30.7% |
| STATISTICS | | | |
| Access Lines in Service (thousands) | 2,335 | 2,205 | 5.9% |
| Interstate Minutes of Use (millions) | 4,332 | 4,101 | 5.6% |

* Effective December 31, 1997, SNET adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." Under SFAS No. 128, basic earnings per common share is computed by dividing income by the weighted average number of common shares outstanding during the period. In order to compute diluted earnings per share, the weighted average number of common shares is increased by the effect of all potential common shares outstanding during the period. As required by SFAS No.128, all periods presented have been restated to conform to the provisions of the new standard.

** 1997 amount does not include the accounting change. If the accounting change had been applied to 1997, Basic and Diluted Earnings Per Share Before Extraordinary Charge and Accounting Change for the period would have been $1.53. The Basic and Diluted Earnings Per Share percent change for the period would have been 5.9% and 4.6%, respectively.

SNET
Preliminary Summary of Consolidated Results
For the Three Months Ended June 30, 1998
(Dollars in Millions)

| | (Unaudited) For the 3 Months Ended June 30, | | Percent Change |
|---|---|---|---|
| | 1998 | 1997 | |
| REVENUES AND SALES | | | |
| Wireline | | | |
| Local Service | $181.7 | $175.4 | 3.6% |
| Network Access | 113.6 | 107.4 | 5.8% |
| Intrastate Toll | 49.9 | 52.2 | (4.4%) |
| Interstate and International Toll | 40.6 | 34.4 | 18.0% |
| Premium Services and Equipment Sales | 34.4 | 27.7 | 24.2% |
| Other | 14.2 | 10.9 | 30.3% |
| Total Wireline | 434.4 | 408.0 | 6.5% |
| Wireless | 66.1 | 58.6 | 12.8% |
| Information and Entertainment | 58.5 | 47.0 | ** |
| Other * | (20.4) | (12.0) | |
| Total Revenues and Sales | $538.6 | $501.6 | 7.4% |
| OPERATING CASH FLOW (EBITDA) | | | |
| Wireline | $155.1 | $149.9 | 3.5% |
| Wireless | 20.4 | 15.5 | 31.6% |
| Information and Entertainment | 18.9 | 23.5 | ** |
| Other * | 8.3 | 4.0 | |
| Total Operating Cash Flow | $202.7 | $192.9 | 5.1% |

* Includes Real Estate and Holding Company operations and eliminations.

** Reflects a change in accounting for Publishing. Absent the change, revenue grew approximately 20%, and Operating Cash Flow declined approximately 24%.

**SNET**

**Preliminary Summary of Consolidated Results**
**For the Six Months Ended June 30, 1998**
**(Dollars in Millions)**

| | (Unaudited) For the 6 Months Ended June 30, 1998 | 1997 | Percent Change |
|---|---|---|---|
| **REVENUES AND SALES** | | | |
| Wireline | | | |
| Local Service | $365.6 | $344.8 | 6.0% |
| Network Access | 221.8 | 210.0 | 5.6% |
| Intrastate Toll | 100.7 | 105.6 | (4.6%) |
| Interstate and International Toll | 81.8 | 64.9 | 26.0% |
| Premium Services and Equipment Sales | 62.1 | 55.4 | 12.1% |
| Other | 27.2 | 23.3 | 16.7% |
| Total Wireline | 859.2 | 804.0 | 6.9% |
| Wireless | 124.1 | 109.5 | 13.3% |
| Information and Entertainment | 120.6 | 93.7 | ** |
| Other * | (38.2) | (22.9) | |
| Total Revenues and Sales | $1,065.7 | $984.3 | 8.3% |
| **OPERATING CASH FLOW (EBITDA)** | | | |
| Wireline | $317.2 | $293.8 | 8.0% |
| Wireless | 35.2 | 28.5 | 23.5% |
| Information and Entertainment | 47.2 | 48.8 | ** |
| Other * | 11.9 | 9.8 | |
| Total Operating Cash Flow | $411.5 | $380.9 | 8.0% |

* Includes Real Estate and Holding Company operations and eliminations.

** Reflects a change in accounting for Publishing. Absent the change, revenue grew approximately 17%, and Operating Cash Flow declined approximately 18%.